

Message Text

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E.O. 11652: GDS
TAGS: EEWT, ENRG, US, UR, EAGR
SUBJECT: MEETINGS OF US CHAMBER OF COMMERCE VICE PRESIDENT CARLSON
WITH USA INSTITUTE, GOSPLAN AND OIL MINISTRY

SUMMARY: US CHAMBER OF COMMERCE VICE PRESIDENT AND CHIEF
ECONOMIST CARLSON VISITED USSR JULY 11-12. AT USA INSTITUTE
HIS INTERLOCUTORS STRESSED EMPHASIS ON EFFICIENCY OF PRO-
DUCTION AND PLAYED DOWN IMPORTANCE OF GROWTH RATE AS TALISMAN
OF SOVIET SUCCESS. THERE WAS A VIGOROUS EXCHANGE ON US-
SOVIET RELATIONS, WITH RANKING SOVIET OFFICIAL DISPAIRING
OF US BUSINESSMEN BRINGING ABOUT CHANGE IN US TRADE POLICY.
AT GOSPLAN, DEPUTY CHAIRMAN LEBEDINSKIY STRESSED NEED FOR
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EFFICIENCY AND LABOR DISCIPLINE AND EMPHASIZED ALLEGEDLY
GROWING EMPHASIS ON WISHES OF CONSUMERS. HE ADMITTED
THAT UNKNOWNNS, INCLUDING ENERGY PICTURE AND CEMA NEEDS,
WOULD PREVENT EARLY CONCLUSION OF LONG TERM PLAN BUT SAID
IT WOULD BE PUBLISHED NEXT YEAR. REACTIONS TO QUESTIONS
ABOUT PROSPECTS FOR OIL PRODUCTION WERE GENERALLY
CAUTIOUS, WITH GOSPLAN AND PETROLEUM MINISTRY OFFICIALS

VOICING GUARDED OPTIMISM BUT CITING NO SUPPORTING EVIDENCE FOR CONTINUED GROWTH. USA INSTITUTE DEPUTY DIRECTOR LAMENTED SOVIET INABILITY TO FOLLOW UP ON PROSPECTIVE OIL STRIKES INDICATED BY GEOLOGISTS (A RARE TWIST, AS GEOLOGISTS FREQUENTLY CATCH MUCH OF THE BLAME). END SUMMARY.

1. DR. JACK CARLSON, CURRENTLY VICE PRESIDENT AND CHIEF ECONOMIST OF THE CHAMBER OF COMMERCE OF THE U.S., MET WITH USA/CANADA INSTITUTE, STATE PLANNING COMMITTEE AND MINISTRY OF PETROLEUM INDUSTRY OFFICIALS ON JULY 11 AND 12. E/C COUNSELOR ARRANGED AND ATTENDED MEETINGS. CARLSON, WHO IS FORMER ASSISTANT DIRECTOR OF OMB, A FORMER ASSISTANT SECRETARY OF THE INTERIOR FOR ENERGY AND MINERALS, AND A ONE-TIME DEPARTMENT OF DEFENSE OFFICIAL, EMPHASIZED IN HIS CONVERSATIONS WITH SOVIET OFFICIALS THAT HE WAS SPEAKING FOR "TWELVE MILLION BUSINESSMEN" AND THAT HE PROBABLY SPENT MORE TIME IN TESTIMONY BEFORE CONGRESS THAN ANY OTHER INDIVIDUAL. MAIN THEMES OF DISCUSSIONS WERE US-SOVIET RELATIONS, SOVIET ECONOMIC FORECAST, AND THE SOVIET ENERGY PICTURE. FOLLOWING REPRESENT HIGHLIGHTS OF DISCUSSIONS.

2. USA/INSTITUTE. CARLSON MET FOR TWO HOURS WITH DEPUTY DIRECTOR EVGENI SHERSHNEV, EXECUTIVE SECRETARY EDUARD A. IVANYAN AND GREGORY S. KHOZIN, APPARENTLY AN EXPERT ON ENERGY. MAIN RESULTS WERE:

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A) BILATERAL RELATIONS. SOVIETS REHEARSED USUAL THEME THAT US POLICY IS UNINTELLIGIBLE, WITH PRESIDENT CARTER A BIG DISAPPOINTMENT. WHEREAS FORMERLY A NUMBER OF ISSUES WERE ON A PAR, NOW THE QUESTION OF ARMS CONTROL IS PARAMOUNT. HERE SECRETARY VANCE HAD BROUGHT ONE-SIDED PROPOSALS. IVANYAN WAS AT POINT OF DEVELOPING THESIS OF US DUPLICITY LAST MARCH BUT DREW BACK WHEN CARLSON STRESSED PERSONAL KNOWLEDGE OF SECRETARY'S INTEGRITY. CARLSON SAID US BUSINESS WAS VERY MUCH AFRAID OF A NEW ARMS RACE. SHERSHNEV COMMENTED IRONICALLY THAT IT WAS THE FIRST HE HAD HEARD OF SUCH CONCERN, ADDING THAT SOVIETS NEVER MISS CHANCE TO PRESENT CASE ON US DISCRIMINATORY TRADE LEGISLATION TO RANKING US BUSINESSMEN, BUT NOTHING EVER SEEMS TO HAPPEN. IVANYAN COMPLAINED OF US EMPHASIS ON HUMAN RIGHTS, CONTRASTING IT TO SCRUPULOUS SOVIET POLICY OF NON-INTERFERENCE IN AFFAIRS OF OTHER STATES. WHEN COUNSELOR COMMENTED THAT SOVIET LEADERSHIP FREQUENTLY REFERRED WITH AFFECTION TO THE "IDEOLOGICAL STRUGGLE" AND HAD LONG ARROGATED TO ITSELF RIGHT TO SPEAK OUT AS IT FELT NECESSARY, IVANYAN ASSERTED THAT THERE ARE "LIMITS" TO THE IDEOLOGICAL STRUGGLE AND "YOU (THE ADMINISTRATION) WENT BEYOND THE LIMITS."

B) SOVIET ECONOMY. SHERSHNEV STRESSED THAT EFFEC-
TIVENESS, NOT GROWTH, WAS CHIEF SOVIET ECONOMIC TARGET
IN PRESENT PLAN. ASKED BY CARLSON IF LOWER GROWTH RATE IN
COMPARISON WITH FRG AND JAPAN - AND PERHAPS EVEN US - DID
NOT WORRY SOVIET PLANNERS, IVANYAN RESPONDED THAT FIXATION
OF GROWTH RATE HAD BEEN IMPORTANT IN PAST BUT WAS NO LONGER
NECESSARY NOW THAT USSR HAD ARRIVED AT GREAT-POWER STATUS.
SHERSHNEV, HOWEVER, INTERJECTED THAT SOVIET ECONOMIC GROWTH
RATE WOULD BE HIGHER IN 11TH FIVE-YEAR PLAN THAN IN THE
PRESENT ONE. ASKED IF DEMOGRAPHIC FACTORS WERE IMPINGING
ON SOVIET ECONOMIC PERFORMANCE, SHERSHNEV SAID "NOT YET"
BUT THAT THEY WOULD DO SO AT END OF THE 1970'S. THAT IS
WHY IN HIS VIEW, A HALF PERCENTAGE INCREASE IN THE
PRODUCTIVITY OF LABOR IS WORTH MORE TO THE USSR THAN
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SEVERAL POINTS OF GROWTH. IN RESPONSE TO QUESTION ABOUT
PROSPECTS FOR US AGRICULTURAL EXPORTS, SHERSHNEV SAID THAT
FODDER GRAINS WOULD CONTINUE TO BE IN DEMAND IN THE FUTURE.
SOVIET DOMESTIC INVESTMENT IN AGRICULTURE WAS HIGH IN ORDER
TO MAKE UP FOR STRUCTURAL WEAKNESS IN RFSFR. GOAL IS
AVOIDANCE OF DEPENDENCE ON IMPORTS. SHERSHNEV CONTENTED
THAT MANAGEMENT REFORM IS BEING IMPLEMENTED IN USSR,
WITH CONSUMERS "IN SOME CASES" BEING ABLE TO REJECT GOODS
OF LOW QUALITY, THEREBY PUTTING PRESSURE ON PRODUCERS TO
IMPROVE OUTPUT. HE CITED TEXTILE INDUSTRY AS AREA WHERE
THIS IS OCCURRING.

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C) ASKED FOR REACTION TO CIA PROGNOSIS ON SOVIET OIL. SHERSHNEV SAID HE WOULD LIKE TO SEE USSR BUY OIL FROM IRAN, BUT THE NECESSARY INFRASTRUCTURE IS LACKING. HE WOULD NOT, HOWEVER, CONCEDE THAT SOVIETS HAVE AN OIL CRISIS AHEAD, NOTING THAT OIL IS "EXPECTED" IN THE FAR NORTHERN REGIONS OF THE COUNTRY AND IS AVAILABLE AT LOWER STRATA IN THOSE AREAS WHERE OIL IS ALREADY BEING EXTRACTED. SHERSHNEV STRESSED HOW SOVIETS, ORIGINALLY CONFRONTED WITH APPARENT NEED TO DRAIN OR FLOOD SAMOTLOR AREA, HAD SOLVED PROBLEM OF SWAMPY GROUND IN A THIRD WAY. IN HIS VIEW, OFFSHORE DRILLING IN THE NORTH WOULD PRESENT NO MORE TECHNICAL PROBLEMS THAN DID THE TYUMEN SWAMPS. HE SAID THAT SOVIET GEOLOGISTS HAVE MADE A NUMBER OF PROSPECTIVE FINDINGS OF CONFIDENTIAL

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OIL DEPOSITS, BUT SO FAR IT HAS BEEN IMPOSSIBLE TO FOLLOW THESE UP DUE TO LACK OF EQUIPMENT.

3. STATE PLANNING COMMITTEE. AT GOSPLAN CARLSON MET FOR OVER TWO HOURS WITH DEPUTY CHAIRMAN NIKOLAY P. LEBEDINSKIY, V.P. PLETNEV, A DEPUTY CHAIRMAN OF THE USSR CHAMBER OF COMMERCE, VITALI S. KOSHENTAEVSKI, DEPUTY (TO VLADIMIR MORDVINOV) HEAD OF GOSPLAN DEPARTMENT FOR NON-COMMUNIST COUNTRIES, N.L. DVORETS OF GOSPLAN AND L.N. SAVITSKIY, DEPUTY CHIEF OF THE CHAMBER OF COMMERCE FOREIGN RELATIONS DEPARTMENT. MEETING INCLUDED GUIDED TOUR OF GOSPLAN COMPUTER FACILITIES LED BY LEBEDINSKIY AND CONCLUDED WITH INFORMAL GIVE AND TAKE SESSION IN GOSPLAN PRIVATE BAR.

A) SOVIET ECONOMY. LEBEDINSKIY, AFTER NOTING REFERENCES TO ENERGY, CLIMATIC CONDITIONS AND DEMOGRAPHIC FORECASTS, SAID HE WAS "OPTIMISTIC" ABOUT THE PROSPECTS FOR THE SOVIET ECONOMY. HE SAW ACHIEVEMENT OF GREATER EFFICIENCY IN THE PRODUCTION PROCESS AS THE "KEY" TO OVERCOMING THE PROBLEMS FACING THE USSR FROM THESE FACTORS, BUT HE ACKNOWLEDGED THAT THE "DIFFICULTIES AND COMPLEXITIES" OUGHT NOT TO BE UNDERESTIMATED. TAKING INTO ACCOUNT THE "DEMOCRATIC

NATURE OF THE SOVIET SYSTEM," WHICH GIVES AUTHORITY TO PERSONS AT VARIOUS LEVELS OF THE ECONOMY ("WE HAVE A LOT OF LIBERALISM IN THE USSR"), LEBEDINSKIY SAID THAT THE PROBLEM WAS NOT "RIGHTS" BUT "DUTIES" - IN OTHER WORDS, HOW TO ENFORCE LABOR DISCIPLINE. THIS WOULD BE ACHIEVED BY A "WHOLE COMPLEX OF MEASURES" INCLUDING "CONTINUATION OF THE ECONOMIC REFORM," A "COMBINATION OF CENTRALIZATION AND DECENTRALIZATION" AND ENHANCEMENT OF THE ROLE OF BOTH PRIVATE AND COLLECTIVE CONSUMERS. THE SOVIET SYSTEM, DEVELOPED AS AN "ECONOMY OF PRODUCERS," HAS REACHED A SUFFICIENTLY HIGH LEVEL OF PRODUCTION SO THAT ONE NEEDS NOW

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TO THINK OF THE CONSUMER. FOR EXAMPLE, CAR PRODUCTION FACTORIES MUST DEMAND HIGHER QUALITY FROM PRODUCERS. ASKED IF CONSUMERS (INCLUDING FACTORIES) COULD RETURN UNSATISFACTORY GOODS, LEBEDINSKIY SAID THAT THIS RIGHT HAD ALWAYS EXISTED IN "THEORY" BUT NOW WAS BEING PUT INTO PRACTICE, THE CONSUMER HAS THE RIGHT NOT TO PAY FOR SUB-STANDARD GOODS. (HE LATER CONFIRMED THAT SOVIET TARGET IS STILL ONE CAR FOR EVERY THREE FAMILIES.)

B) ENERGY. ASKED BY CARLSON TO COMMENT ON ENERGY PROSPECTS IN LIGHT OF CIA REPORT, LEBEDINSKIY SAID THAT PROBLEM "MIGHT" BE SOLVED; IT WAS "NOT UNMANAGEABLE." HE DID NOT HAVE CIA'S DATA BASE BUT SOVIET PLANS WERE BASED ON MODEL OF "ACTIVE FORECASTING" (I.E., APPARENTLY ASSUMING NEW DISCOVERIES). FOR EXAMPLE, THERE WAS COOPERATION WITH JAPAN IN DEVELOPMENT OF YAKUTSK GAS. ASKED IF OIL PRODUCTION WAS TO GROW AT 2-4 PERCENT ANNUAL RATE, LEBEDINSKIY SAID WITH A LAUGH: "YOU WANT TOO MUCH INFORMATION." WORK ON THE PLAN HAD NOT YET BEEN COMPLETED; IT WAS A VERY COMPLICATED QUESTION, SINCE ONE COULD NOT SPEAK ON ENERGY WITHOUT TAKING INTO ACCOUNT OTHER BRANCHES OF THE ECONOMY. THE PLANS OF CEMA COUNTRIES MUST ALSO BE TAKEN INTO ACCOUNT. (IN SUBSEQUENT DISCUSSION DURING TOUR LEBEDINSKIY STATED THAT IT WAS NOT THE UNCERTAINTY ABOUT OIL WHICH WAS HOLDING UP THE 15-YEAR PLAN, WHICH HE PREDICTED WOULD BE PUBLISHED IN 1978, BUT RATHER UNCERTAINTY ABOUT CONSUMPTION CURVES AND OTHER UNKNOWNNS.)

C) COMPUTERIZATION. ASKED HOW REGIONAL COMPUTERIZATION PROGRAM WAS COMING, LEBEDINSKIY SAID THAT FIRST STAGE HAD BEEN COMPLETED, ONE-TENTH OF A "GIGANTIC SYSTEM." A "SKETCH PROJECT" INCLUDING 140 PROJECTS HAD BEEN DEVELOPPED, CONTAINING VAST DOCUMENTATION. FOR EXAMPLE, THERE WERE 32 VOLUMES ALONE ON LIGHT INDUSTRY. LEBEDINSKIY SAID THAT THE PROBLEM IS HOW TO SIMPLIFY THE DATA. THE SECOND STAGE WILL BE TO SOLVE THE SAME TASKS USING COMMUNICATIONS BETWEEN

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DEPARTMENTS AND POSSIBLY EVEN BETWEEN ENTERPRISE. THE
GOSPLAN COMPUTER SYSTEM HAS 900 EMPLOYEES, USING SOVIET AND
FOREIGN THIRD-GENERATION COMPUTERS. LEBEDINSKIY EXPLAINED
THAT GOSPLAN DID NOT SEEK TO OBTAIN THE "LATEST" COMPUTERS,
SINCE IT WOULD TAKE TOO MUCH TIME TO ADJUST THEM TO THE
SKILLS OF THE STAFF. RELIABILITY AND STORAGE CAPACITY ARE

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THE CHIEF PROBLEMS. (ON THE TOUR OF THE COMPUTER FACILITIES
LEBEDINSKIY SHOWED EQUIPMENT FROM PLAND, CZECHOSLOVAKIA,
EAST GERMANY AND BULGARIA BUT NOTED THAT PAINS HAD BEEN
TAKEN TO MAKE SYSTEM COMPATIBLE WITH IBM THIRD GENERATION
COMPUTERS, IF SOME WERE TO BE OBTAINED.)

D) US-SOVIET RELATIONS. DURING INFORMAL DISCUSSION IN
GOSPLAN BAR, LEBEDINSKIY POINTED PRAISED GERMANS AS

OUTSTANDING TRADERS, ARGUED THAT WEST EUROPEAN AND JAPANESE TECHNOLOGY IS AS GOOD AS THAT OF US, AND PREDICTED THAT US SALES TO USSR WILL DECLINE IN LIGHT OF CONTINUATION OF DISCRIMINATORY TRADE POLICY.

4. MINISTRY OF THE PETROLEUM INDUSTRY. CARLSON WAS
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RECEIVED ON JULY 12 BY DEPUTY MINISTER VIKTOR I. MISHCHEVICH AND CHIEF OF THE FOREIGN RELATIONS ADMINISTRATION PASHA ARUSHANOV, PLUS INTERPRETER (BORODIN) AND AUDITORS. MISHCHEVICH, WHO HAD OBVIOUSLY BEEN BRIEFED ON DISCUSSIONS OF OIL FORECAST AT USA INSTITUTE AND GOSPLAN, WAS VERY GUARDED IN RESPONDING TO QUESTIONS AND VOLUNTEERED ALMOST NOTHING ON HIS OWN. CONCERNING THE CIA FORECAST HE RESPONDED: "WAIT AND SEE." HE STATED THAT USSR WOULD TRY TO ACHIEVE 50 PERCENT RECOVERY OF OIL (VICE PRESENT 30 PERCENT), AND, AFTER CARLSON EXPRESSED DOUBT THIS WAS POSSIBLE, ADDED THAT SOVIETS ARE LOOKING TO TERTIARY METHODS OF RECOVERY. MISHCHEVICH CONCEDED THAT EVEN GETTING RECOVERY UP AN INCREMENTAL TEN PERCENT (TO 40 PERCENT) WOULD BE DIFFICULT. HE AGREED WITH CARLSON THAT THE RECOVERY COST FOR A BARREL OF OIL BY TERTIARY METHODS WAS PRESENTLY ABOUT SEVENTEEN DOLLARS. HE ALSO AGREED THAT SOVIETS WOULD BE MOVING TO OFFSHORE PRODUCTION AND SAID TRANSPORT OF OIL IS "NOT TOO EASY." NEW DISCOVERIES ARE BEING MADE, AND PRODUCTION IS GRADUALLY MOVING INTO LESS HOSPITABLE CLIMES. OUTPUT IN THE FIRST SIX MONTHS OF 1977, HE SAID, HAD EXCEEDED PLAN BY 700,000 METRIC TONS. ASKED IF ENERGY CONSERVATION WAS BEING PRACTICED IN USSR, MISHCHEVICH SAID "NATURALLY," USING SIMILAR MEANS AS IN US, WHICH USSR IS WATCHING CLOSELY. POL WILL CONTINUE TO REPRESENT ABOUT ONE-THIRD OF USSR'S TOTAL ENERGY PICTURE, WHEREAS THE SHARE OF GAS WILL INCREASE. HE DESCRIBED THE DIVISION OF EXPLORATORY WORK BETWEEN HIS MINISTRY AND THE MINISTRY OF GEOLOGY AS FOLLOWS: THE LATTER WORKS IN NEW AREAS, THE MINISTRY OF PETROLEUM INDUSTRY EXPLORES EXISTING FIELDS AND BOTH MINISTRIES WORK IN THE SEA. ASKED SPECIFICALLY IF UNCERTAINTY ABOUT OIL WAS CONTRIBUTING TO DELAY IN PUBLICATION OF 15-YEAR PLAN, HE RESPONDED,
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"WE ARE WORKING ON THE FIGURES, BUT THEY ARE NOT READY."
IT WAS THE FIRM OBJECTIVE OF THE USSR TO BE "SELF-SUFFICIENT"
IN ENERGY (HE ASKED MOCKINGLY WHAT SORT OF PROGRESS

"PROJECT INDEPENDENCE" WAS ENJOYING IN THE US). ASKED BY E/C COUNSELOR WHERE "NEXT SAMOTLOR" WAS LIKELY TO BE FOUND, MISHCHEVICH SMILED GRIMLY AND SAID, "THE GEOLOGISTS WILL FIND ONE."

5. ON SUBJECT OF TRADE, MISHCHEVICH NOTED THAT SOVIETS ARE ALREADY BUYING SOME US EQUIPMENT AND WOULD BE BUYING MORE. HE MENTIONED GAS LIFT EQUIPMENT AS WELL AS PENDING COMPLETION OF NEGOTIATIONS WITH ARMCO, BROWN AND ROOT AND MCDERMOTT. ACCORDING TO MISHCHEVICH, COOPERATION IN OFFSHORE OPERATIONS WITH THEUS WOULD BE VERY WELCOME; "YOU HELPED THE BRITISH EXPLORE THE NORTH SEA," HE SAID HOPEFULLY. REFERRING TO HIS OWN THRICE POSTPONED VISIT TO THE US, HE STATED THAT HE HOPED TO MAKE IT IN A MONTH OR TWO. (ON THE WAY TO THE DOOR FOLLOWING THIS MEETING, CARLSON QUIPPED TO THE INEVITABLE "ESCORT" - WHO HAD MONITORED THE CONVERSATION- "WE'LL GO BACK AND TELL THE CIA THEY ARE WRONG." THE "ESCORT" RESPONDED WITH A SLY SMILE: "YOU CAN GO BACK AND TELL THE CIA THAT YOU DIDN'T GET ANY STATISTICS.")

6. COMMENT: CARLSON'S STYLE WAS TO INVITE CRITICISM OF US POLICY BY ASKING IF RELATIONS WERE WORSE (MOST SAID THEY WERE), PLANS TO CONSTRUCT CRUISE MISSILE AND PROCEED WITH R & D FOR B-1 BOMBER, ETC. HIS OWN DEPTH OF KNOWLEDGE ABOUT DEFENSE, BUDGETARY, AND ENERGY ISSUES ENABLED HIM TO DEAL SKILLFULLY WITH SOME OF THE MORE EXTREME REPLIES, HOWEVER, AND TO DRAW OUT HIS HOSTS SOMEWHAT ON PROSPECTS FOR THE SOVIET ECONOMY. WHILE THE COMMENT HE RECEIVED ON FORECASTS FOR SOVIET OIL WAS GUARDED AND IN MOST CASES GENERAL IN NATURE, IT WOULD BE POSSIBLE TO DRAW THE INFERENCE THAT THE SOVIETS ARE AT PRESENT BOTH CONCERNED AND UNCERTAIN ABOUT PROSPECTS, BUT NOT YET READY TO CONCEDE LIKELIHOOD OF CRISIS OF MAGNITUDE POSTULATED BY CIA.
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